
**United States Court of Appeals
For the Ninth Circuit**

**MISTER DONUT OF AMERICA, INC.,
APPELLANT,**

v.

**MR. DONUT INC., ET AL.,
APPELLEES.**

PLAINTIFF-APPELLANT'S BRIEF

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PLAINTIFF-APPELLANT'S BRIEF

JURISDICTIONAL STATEMENT

This is an appeal by the plaintiff-appellant Mister Donut of America, Inc., from a final judgment of the district court dated May 2, 1967 dismissing its Complaint and Supplemental Complaint for trademark infringement, unfair competition and dilution of plaintiff's trademark. (R. 584)¹

Jurisdiction of the district court was based upon provisions of the Trademark Act of 1946, 15 U.S.C. §1121, 1125(a), 1125(b), 1126(b), 1126(h), and 1126(i) the provisions of 28 U.S.C. 1338(a) and (b) (R. 2, 199), and diversity of citizenship, the value of the subject matter in controversy with respect to each defendant exceeding the sum or value of \$10,000.00 exclusive of interest and costs. (R. 2, 199).

¹ "R" refers to the Transcript of Record, volumes 1 to 3.

Plaintiff pleaded and defendants admitted that it was a corporation incorporated under the laws of the Commonwealth of Massachusetts with its principal place of business in Massachusetts and that the defendants-appellees were individuals residing in, proprietorships doing business in, and a corporation operating in the State of California (R. 2, 3, 16, 17, 199, 200, 261, 262, 389 and 390). Plaintiff also alleged and defendant admitted plaintiff's ownership of United States Trademark Registrations Nos. 683,370, 427,509, 668,784, and 673,298, the infringement of which is in issue (R. 4, 5, 6, 201, 203, 395).

This Court has jurisdiction to review the judgment of the district court under the provisions of 15 U.S.C. § 1121 and 28 U.S.C. § 1291 and 1294.

PROCEEDINGS BELOW

This action is for trademark infringement of plaintiff's common law, federal and state statutory rights, unfair trade practices and unfair competition. The Supplemental Complaint alleges defendants infringe plaintiff's federally registered trademarks MISTER DONUT and MR. DONUT by operating and franchising seven MR. DONUT shops in Orange County, California. (R. 199). The defendants generally denied the allegations of the Supplemental Complaint (R. 261) and in addition asserted several affirmative defenses including: good faith adoption of the mark MR. DONUT; that the defendants' activities are purely local in nature and therefore not amenable to regulation under the Lanham Act;² that plaintiff's acquisition from a third party of a federally registered MR. DONUT-mark prior to the defendants' use thereof was invalid and that plaintiff was

² The Lanham Act is the popular name for The Trademark Act of 1946, Chapter 22 of Title 15 of the U.S. Code, 60 Stat. 427.

guilty of fraud in acquiring federal trademark registrations. The defendants also asserted a Counterclaim which substantially embodied its affirmative defenses and, *inter alia*, sought an injunction against use by plaintiff of MR. DONUT in California. (R. 261).

Following substantial pretrial discovery, both parties filed motions for summary judgment (R. 110, 173) which were heard initially on April 26, 1965, and then continued for further hearing on May 24, 1965. Following the first hearing the plaintiff was given leave to and did file its Supplemental Complaint (R. 199). On August 4, 1965, both plaintiff and defendants motions for summary judgment were denied on the grounds that there were genuine issues of fact (R. 286). Following further discovery including depositions, a Pretrial Conference Order was filed in which the civil action was dismissed against Eugene and Bonnie Peterson and Earl R. Power without prejudice, and the Mr. Donut Shop at 1232 South Bristol Street, Santa Ana, California was deemed to be MR. DONUT, INC., a California corporation, which was organized during the course of these proceedings (R. 389, 415).

After trial on the merits without jury from January 10, 1967 until January 12, 1967, and submission of the case on brief, the district court made an Order for Findings of Fact, Conclusions of Law and Judgment on March 23, 1967 (R. 509); and on May 2, 1967, the district court issued its Findings of Fact and Conclusions of Law and a Final Judgment dismissing the Complaint and Supplemental Complaint and the Counterclaim (R. 576, 584). On May 31, 1967, plaintiff filed its Notice of Appeal and on June 13, 1967, the defendants filed their Notice of Cross-Appeal (R. 585, 595).

STATEMENT OF FACTS

INTRODUCTION

The plaintiff, Mister Donut of America, Inc. (by change of name from Harwin Management Corp.) was organized under the laws of the Commonwealth of Massachusetts on June 27, 1955 (R. 576). The defendants include Mr. Donut, Inc., a corporation of the State of California, David K. Jones, principal stockholder and President of Mr. Donut, Inc., his wife Helen L. Jones and Berta Ramos, a franchisee of one of the defendants' Mr. Donut shops (R. 576).

PLAINTIFF HAS USED MISTER DONUT SINCE 1955 AND BY THE TIME OF TRIAL WAS OPERATING OR FRANCHISING ABOUT 200 SHOPS FROM MASSACHUSETTS TO CALIFORNIA.

Plaintiff commenced using the mark MISTER DONUT about August 1955 shortly after it was organized as Harwin Management Corporation (R. 578). It first used MISTER DONUT in the operation and franchising of donut shops in Massachusetts and New York (R. 578). Prior to October 1957, the earliest date upon which any of the defendants claimed to have adopted MR. DONUT, the plaintiff had in operation five franchised MISTER DONUT shops in the states of Massachusetts and New York (R. 578, 580). The plaintiff's business spread steadily southward and westward. In 1958 shops were opened in Florida, Michigan and Virginia (R. 578). In 1960 a shop was opened in Ohio; in 1961 shops were opened in Connecticut and Illinois; in 1962 shops were opened in Delaware, Georgia, Indiana, Pennsylvania and New Jersey (R. 578). In 1963 a shop opened in Minnesota (R. 578). In 1964 shops opened in Nebraska, Maine, Kentucky, Ohio, Colorado, West Virginia and Wisconsin (R. 578). By the time of institution of this

civil action in 1964 there were approximately one hundred and twenty five MISTER DONUT shops in twenty states (R. 578). By the time of trial there were approximately two hundred MISTER DONUT shops operating in thirty states, including five in California (R.T. 56).³

BY THE TIME OF TRIAL PLAINTIFF WAS NOT ONLY ACTIVELY OPERATING AND BUILDING MISTER DONUT SHOPS IN CALIFORNIA, BUT ALSO HAD EXPERIENCED ACTUAL CONFUSION AND LOSS OF BUSINESS BECAUSE OF DEFENDANTS ACTIVITIES IN ORANGE COUNTY.

Plaintiff's five MISTER DONUT shops in operation in California at the time of trial were located in Campbell, Sacramento and San Jose (R. 578). In addition plaintiff had several other MISTER DONUT shops under construction (R. 578). Plaintiff's activities in California had assumed substantial proportions long prior to trial. It opened a Western Division office in Palo Alto, California to handle its Western activities in 1965 (R. 578). It advertised for franchisees in national publications reaching California as early as 1957 (R.T. 157 to 159, Ex. 59).⁴ Substantial testimony was offered that plaintiff not only was actively soliciting sites for MISTER DONUT shops in Orange and Los Angeles County (R.T. 61-63) but that it had received a number of substantial deposits from people in Los Angeles who are now waiting for available shops (R.T. 64, 82, 83). In connection with its expansion in California plaintiff has advertised for franchisees and shop sites in Southern California in regional publications (R.T. 68, 71-73, Ex. 104, 110-112, 116, 117). These ads and publicity releases received substantial response, resulting in many inquiries

³ "R.T." refers to the Reporter's Transcript of proceedings.

⁴ Ex. refers to Exhibits offered at trial. Plaintiff's exhibits are numbered. Defendants' exhibits are alphabetical.

in addition to the deposits actually accepted (R.T. 69-71, Ex. 105). Actual negotiations for site locations have been negotiated in Orange County and in Los Angeles County (R.T. 74-81, Ex. 108, 113-116). Very early interest in obtaining at least one Mister Donut franchise from plaintiff in the Los Angeles area was expressed by a businessman Carlos T. Parker from Iowa and his daughter Geraldine Messinger who indicated a desire to open at least one Mister Donut shop in the Los Angeles area. (R.T. 283-315). Substantial interest was expressed by others, including a retired naval officer, John E. Sullivan (R.T. 245 to 261). These individuals refrained from pursuing franchise negotiations with the plaintiff only when they learned of defendants' activities in Orange County (R.T. 253, 256, 295 to 297, 309, Ex. 76, 93). These witnesses also indicated it was the likelihood of confusion with defendant that was the only reason for not wanting to procure a franchise from plaintiff. Plaintiff had also delayed its developments in Orange County and Southern California in part because of defendants' activities (R.T. 84).

LONG PRIOR TO DEFENDANTS' USE OF MR. DONUT PLAINTIFF TOOK EVERY POSSIBLE STEP TO ASSERT NATIONAL OWNERSHIP OF BOTH MR. DONUT AND MISTER DONUT BY FILING SEVERAL APPLICATIONS FOR FEDERAL REGISTRATION AND BY PURCHASING A REGISTRATION OF MR. DONUT AND RECORDING THAT PURCHASE.

Promptly after the plaintiff adopted the mark MISTER DONUT it took all steps available to it to assert national ownership of this mark for use in connection with its business. These steps included the filing of four applications for registration under the Lanham Act, the good faith purchase for valuable consideration of an earlier registration of the mark MR. DONUT (Ex. 4), and the recording of

that assignment (Ex. 5; R. 580), and the recording in the Patent office of the plaintiff's change of name from Harwin Management Corp. to Mister Donut of America, Inc. (Ex. 1). The four applications filed by plaintiff included three filed in 1955 (Ex. 3, 7 and 9). Two of these applications matured into registrations 668,784 (Ex. 3) and 673,298 (Ex. 9), which are now incontestable under the provisions of 15 U.S.C. 1065. Registration 668,784 was for MISTER DONUT used in connection with snack bar services. Registration 673,298 was a logo of a donut man used in connection with snack bar services. In addition plaintiff filed an application for federal registration of MISTER DONUT for flour, filling and jellies for donuts, coffee and vegetable shortening in October 1957 which issued on August 11, 1959 as Registration No. 683, 370 (Ex. 2). This latter registration is also incontestable under 15 U.S.C. §1065.

Registration 427,509 for the mark MR. DONUT and a design, registered on February 11, 1947 for donuts to Finis L. Ragsdale of Everett, Washington, (hereafter referred to as the Ragsdale registration) was acquired from Ragsdale's widow as executrix of his estate by an assignment dated July 17, 1956 when plaintiff's own application for registration of MR. DONUT, filed August 24, 1955, was rejected by the Patent Office because of this prior registration (R. 580, Ex. 5, 6 p. 5, 6). The assignment to plaintiff was recorded in the United States Patent Office on July 23, 1956 more than a year before the date that defendants first started to use the mark MR. DONUT. At the time of this assignment and recording, the Ragsdale donut business was still in operation and the mark MR. DONUT was still in active use as outlined below. And although the assignment recited a transfer of good will for valuable consideration, the district court held that since plaintiff did not receive a customer list, merchandise, equipment, recipes or goods

from the assignor there was no transfer of good will (R. 580).

AT THE TIME PLAINTIFF PURCHASED THE RAGSDALE REGISTRATION THE MARK SHOWN IN THAT REGISTRATION WAS IN ACTIVE USE BY JEAN ZIEBELL WHO ACQUIRED THE RAGSDALE DONUT OPERATION BUT NEVER RECORDED ANY ASSIGNMENT OF THE REGISTRATION IN THE PATENT OFFICE.

The district court further held with respect to plaintiff's Ragsdale Registration that Finis L. Ragsdale owned the Everett Super Market in Everett, Washington. During his ownership of this Super Market, Ragsdale leased a donut shop on the premises to Mrs. Jean Ziebell which was operated under the name MR. DONUT. He sold the market to Harold L. Cohen on or about February 14, 1951. Mr. Cohen within a few days thereafter sold the entire Ragsdale donut operation to Mrs. Jean Ziebell. In conjunction with the Ragsdale donut operation there were included signs bearing the caricature of a donut man and the words MR. DONUT as such indicia appears on the Ragsdale trademark registration. (R. 579). These signs together with all the equipment and supplies used by Mr. Ragsdale to operate his donut shop, including flour, shortening, powdered sugar, flavoring, donut bags, boxes, donut making machines and advertising tabs were included in the purchase made by Mrs. Ziebell. The paper bags bore the donut man caricature and the words MR. DONUT. After this purchase Mrs. Ziebell continued to manufacture and sell donuts in the shop formerly operated by Mr. Ragsdale. Mrs. Ziebell operated the former Ragsdale shop continuously until 1959 and she continued to display the sign bearing the little donut man caricature and the words MR. DONUT in the form appearing in Registration No.

427,509. Additionally, the trademark was used in newspaper ads and on a Jeep stationwagon which was used to make deliveries. Former customers of Mr. Ragsdale continued to purchase donuts after Mrs. Ziebell acquired the Ragsdale donut shop. After the sale of his donut shop, Mr. Ragsdale did not again sell donuts (R. 579, 580). While the district court made no specific findings, defendants failed to offer any evidence that suggests the plaintiff was aware that the Ragsdale donut business was operated by and the mark MR. DONUT was being used by Mrs. Jean Ziebell rather than by Mr. Ragsdale's estate at the time plaintiff acquired the Ragsdale registration from Mr. Ragsdale's estate. Nor is there any evidence that the plaintiff knew Mrs. Ziebell operated the Ragsdale business in apparent conflict with the patent office records showing ownership of the Ragsdale registration in Ragsdale's estate.

THE DEFENDANTS' SHOPS WERE OPENED IN DISREGARD OF MANY AVAILABLE PUBLIC RECORDS OF PLAINTIFF'S CLAIMS TO MISTER DONUT AND MR. DONUT, WITH ALL THE SHOPS OPENED IN DIFFERENT TRADE AREAS AND WITH ALL BUT ONE OPENED AFTER ISSUANCE OF AT LEAST ONE INCONTESTABLE REGISTRATION TO PLAINTIFF.

By December 1957, the date of first actual use of the mark MR. DONUT by defendants, the following public records in the Patent Office, evidencing plaintiff's claims to MR. DONUT and MISTER DONUT, were readily available to anyone including the defendants (R. 394, 395): (a) the 1947 Ragsdale registration of the mark MR. DONUT (Ex. 4); (b) the assignment of the Ragsdale registration on July 17, 1956 from the estate of Mr. Ragsdale to the plaintiff, then known as Harwin Management Corp. (Ex. 5); (c) a pending application of the plaintiff for

the mark MR. DONUT filed on October 24, 1955 under Serial No. 693,602 (Ex. 7); (d) a certified copy of plaintiff's change of name to Mister Donut of America, Inc. (Ex. 8); (e) an application that plaintiff filed on October 9, 1956 for registration of the mark MISTER DONUT for flour, filling and jellies for donuts, coffee and vegetable shortening, which later matured into plaintiff's registration 683,370 on January 27, 1959 and is now incontestable (Ex. 2); (f) an application for plaintiff filed on November 28, 1955 for registration of the mark MISTER DONUT for snack bar services which matured into Registration 668,784 on October 28, 1958 and is now incontestable (Ex. 3) and (g) a publication for opposition in the Official Gazette of the Patent Office of November 12, 1957, (See Publication notice in defendants' Ex. C) of plaintiff's application for registration of MISTER DONUT, Serial No. 698,978 (now Registration 668,784) (Ex. 3). By the time defendants expanded into a different trade area by opening a second donut shop plaintiff's registration 668,784 (Ex. 3) for MISTER DONUT had issued.

The defendants opened their first MR. DONUT shop in Orange County on or about December 3, 1957, more than a year after the plaintiff had recorded in the Patent Office its assignment of the Ragsdale registration for the mark MR. DONUT (R. 580) and after publication for opposition of plaintiff's registration 668,784 (Ex. 3).

The name MR. DONUT was selected by defendant David Jones without any investigation of prior registrations of others, even though Jones was thoroughly experienced in the franchise operation of Winchell Donut Shops (R. 393). And despite the lack of truthfulness of the defendants' principal witness (R.T. 391) the district court found that this defendant adopted the mark MR. DONUT without actual knowledge of the plaintiff's prior use of the mark MISTER DONUT or the use by anyone of MR. DONUT (R. 580).

This first donut shop of the defendants was the only one opened and in operation until 1959 when a second shop was opened in Santa Ana, California, with this second shop opening after issuance of the plaintiff's incontestable registration 668,784 on October 21, 1958 for the mark MISTER DONUT covering snack bar services (R. 565, 560). The defendants subsequently opened five more MR. DONUT shops. Of these, two were opened in Santa Ana, one in Placentia, one in Garden Grove and one in Orange, California. The defendants' activities were initially conducted by David K. Jones and his wife, Helen L. Jones. Subsequently, and long after this suit was commenced, the defendants' incorporated as MR. DONUT, INC. The defendants did not franchise any of their shops until May 30, 1960 at which time MR. DONUT No. 3 was franchised (R. 390). At present, MR. DONUT, INC. operates two shops and franchises the remaining five, all located in Orange County (R. 581).

The defendants' seven shops are each located at least *five* miles away from one another (R.T. 371) and cater to customers only within a radius of *four* miles (R. 581). Defendant D. K. Jones admitted that these shops catered to local trade and that the second shop opened was in a different trade area from the first (R.T. 372).

ALTHOUGH THE COURT FOUND THE DEFENDANTS' SHOPS WERE LOCATED ON LOCAL STREETS, THE PARTIES STIPULATED THEY WERE LOCATED ON MAJOR THOROUGHFARES AND, ACCORDING TO DEFENDANT, CATERING TO THROUGH TRAFFIC FEEDING TO AND FROM INTERSTATE HIGHWAYS.

The district court found that all equipment and supplies used in the shops have been and are purchased in Orange and Los Angeles Counties; that all defendants' products are sold in Orange County; that all advertising

is limited to Orange County and no attempts have been made to attract customers from other areas (R. 581). Although both parties stipulated in the Pretrial Order that “all of defendants’ shops are on *major thoroughfares* and a number of customers are U.S. Marines in uniform” (R. 394) and although defendant D. K. Jones testified (R.T. 392) that defendants’ shops cater to through traffic that feeds to and is received from interstate highways, the district court found (R. 581) that defendants’ shops are “located on local streets which are not Federal or State marked highways” and most customers are regular or repeat (See also R.T. 270). And although both parties stipulated in the Pretrial Order that “Defendant D. K. Jones admits he has seen a number of people purchasing products from defendants’ shops who arrive in cars with out-of-state plates” and defendant D. K. Jones admitted that a significant part of defendants’ business could be from people traveling in interstate commerce (R.T. 392) the district court found (R. 581) that only “. . . *a few customers*” drive . . . “to defendants’ shops in automobiles having non-California license plates . . .” (R. 581). (Emphasis added.)

THE BUSINESS OF THE PARTIES IS SUBSTANTIALLY IDENTICAL AT BOTH A FRANCHISING AND RETAIL LEVEL.

The plaintiff and defendants both use the marks MISTER DONUT and MR. DONUT in essentially the same manner in donut shops which are primarily franchised, but in some instances are operated directly by the parties (R. 390-94, 396, 578, 581). Each uses its marks on free standing signs and numerous small signs inside and about the shops as well as on bags, boxes, napkins and other disposable items (R. 392, 394, 579). Both the plaintiff and defendants sell a limited variety of food and beverages

in their donut shops consisting principally of donuts and coffee, both for consumption on the premises and for carrying out (R. 389, 578). Both parties advertise their shops in newspapers, on radio, in telephone books, and by other means (R.T. 358).

The plaintiff also solicits prospective franchises by paid national and local advertising, (Ex. 31-39), by distribution of brochures in MISTER DONUT shops (Ex. 29), by unsolicited publicity, by mail distribution (Ex. 40) and by word of mouth (R.T. 145).

DEFENDANTS AGREED THAT THERE WAS LIKELIHOOD OF CONFUSION BY THE PUBLIC IN CONTEMPORANEOUS USE OF THE MARKS MR. DONUT AND MISTER DONUT BY THE PARTIES.

Although the court found the parties were not in competition and that defendants' business does not affect interstate commerce (R. 582), it made no findings on testimony directly relating to the crucial issue as to whether there was likelihood of confusion. Substantial evidence however was offered on this point. Not only did independent witnesses, Carlos W. Parker, (R.T. 296), Geraldine Messinger (R.T. 308) and John E. Sullivan (R.T. 252-56) testify that confusion was likely, but defendant D. K. Jones admitted it (R.T. 397). Further it was stipulated by the parties that "Mister" and "Mr." are euphonicly the same and the latter is an abbreviation of the former (R. 394). Moreover substantial evidence was offered that plaintiff was presently active in establishing operations in Orange County and Los Angeles County (R.T. 74 to 81, Ex. 108, 113 to 116).

SPECIFICATION OF ERRORS

1. The trial court erred in not finding that the use of Mister Donut and Mr. Donut respectively by plaintiff and defendants in operating and franchising donut shops is likely to cause confusion or mistake. [F. 6, 18, 21, 24, (R. 577, 581, 582); C. 8, 12, (R. 583)].⁵

2. The trial court erred in not finding that plaintiff's prior adoption and continuous use of Mister Donut and Mr. Donut beyond the limits of California entitles it to preclude use of Mr. Donut in California by defendant under the law of California. [F. 18, (R. 581); C. 7, 8, (R. 583)].

3. The trial court erred in not finding plaintiff's operation and franchising of donut shops in California and other states under its valid federally registered mark MISTER DONUT entitles it to preclude further intrastate use by defendants of a confusingly similar mark [C. 4, 5, (R. 582)].

4. The trial court erred in not finding the recorded assignment of Mr. DONUT Ragsdale registration to plaintiff and plaintiff's pending applications for federal registration of MISTER DONUT at the time defendants first used MR. DONUT were constructive notice of plaintiff's claim to MR. DONUT under the Lanham Act. [F. 13, (R. 580); C. 2, 3, (R. 582)].

5. The trial court erred in holding defendants may open or franchise donut shops in areas other than that trade area in which they operated before issuance of plaintiff's federal registration for MISTER DONUT. [C. 4, 5, 6, 7, 8, (R. 582, 583)].

6. The trial court erred in not holding a recorded assignment from the record title holder of the trademark MR. DONUT and its federal registration 427,509 together

⁵ "F." indicates "finding of fact" and "C." indicates "conclusion of Law."

with the good will represented thereby at a time when the mark was in active use for valuable consideration conveys good title in the trademark to plaintiff in the absence of an actual transfer of physical assets. [F. 11, 12, 13, (R. 579, 580); C. 2, 3, (R. 582)].

7. The trial court erred in presumably holding that actual competition between the parties is necessary in establishing infringement of a federally registered trademark. [F. 21, (R.582); C. 7, 8, 9, 12, (R.583)].

8. The trial court erred in not holding the prima facie valid records of the Patent Office in 1956 showing an assignment of MR. DONUT Registration 427,509 to plaintiff bars a defense of good faith adoption in October 1957 of the same mark by defendants. [F. 11, 12, 13 (R. 579, 580); C. 2, 3, (R. 582)].

9. The trial court erred in not holding that plaintiff's rights in the Ragsdale trademark MR. DONUT and its registration were superior to those of Jean Ziebell because plaintiff was a bona fide purchaser for valuable consideration who recorded an assignment under 15 U.S.C. §1060. [F. 11, 12, 13, (R. 579, 580); C. 2, 3, (R. 583)].

10. The trial court erred in not holding the plaintiff, who now operates or franchises 200 MISTER DONUT Shops from Massachusetts to California, is entitled to an injunction against defendants' operation and franchising of seven MR. DONUT Shops in Orange County, California, where plaintiff adopted and used the mark MISTER DONUT in interstate commerce in 1955, took all steps possible to assert ownership of this mark, including the purchase and recording of an assignment in the United States Patent Office in 1956 of a MR. DONUT registration, the filing of three applications for federal registration in 1955 and 1957 (two of which now have matured into incontestable registrations), and the obtaining of numerous state trademark registrations, and where defendants long afterwards

adopted without investigation the confusingly similar mark MR. DONUT without any prior investigations, and are using it in a manner which actually damaged plaintiff and confuses the public. [C. 7, 8, 12, (R. 583)].

ARGUMENT

SUMMARY OF ARGUMENT

Plaintiff's federal registrations 683,370 and 668,784 (Ex. 2, 3) for MISTER DONUT are infringed by defendants' use in the same business of MR. DONUT since confusion has actually occurred and is likely. Defendants' claim of innocent adoption of MR. DONUT before issuance of these registrations is no defense because defendants are charged with constructive knowledge of plaintiff's claim of ownership of MISTER DONUT and MR. DONUT by virtue of (1) plaintiff's acquisition and recording in the Patent Office of federal registration 427,509 (Ragsdale registration) more than a year before defendants went into business (see 15 U.S.C. §1072), (2) publication in the Official Gazette of the Patent Office of the application for registration 668,784 at least several weeks before plaintiff started to use MR. DONUT and (3) California State law which precludes innocent adoption as a defense in the interest of protecting the public from confusion. Assertions that plaintiff cannot rely upon the Ragsdale registration because the assignment was "in gross" and conveyed no goodwill are wrong. At the time of the assignment of the Ragsdale registration to plaintiff, the Ragsdale Mr. Donut operation, unknown to plaintiff, had already been sold by mesne assignment to Jean Ziebell who was then operating under the Mr. Donut mark. And plaintiff as an innocent bona fide purchaser for value of all rights, title and interest in the mark and registration was en-

titled to rely upon the Patent Office records in determining record title holder. (15 U.S.C. §1060). That plaintiff did not take recipes, merchandise, customer lists, etc., in acquiring the goodwill is irrelevant since goodwill is an intangible.

Defendants' claims that they are not amenable under the Lanham Act because they do not operate in or affect interstate commerce is plainly wrong since defendants have affected plaintiff's interstate business by directly causing three prospective franchisees to refuse plaintiff's franchises and are likely to cause more damage in view of plaintiff's present activities in Orange and Los Angeles Counties. Actual competition is not necessary.

Plaintiff's Ragsdale registration, the validity of which was not attacked, is infringed for reasons set forth above.

Defenses to charges of infringement of plaintiff's Lanham Act registrations are applicable only in the trade area in which defendants operated before plaintiff's registrations 683,370 and 668,784 issued. 15 U.S.C. §1115(b). Therefore defendants' use of Mr. DONUT, if permitted at all, should in any case be confined to the admitted trade area of a four mile radius from the only shop of defendants that was opened before plaintiff's registrations issued.

Under California common and statutory law the first user of a trademark inside or outside of the State is the owner. Cal. Bus. and Prof. Code, § 14270. Since liability is determined solely on the basis of confusion with a valid mark, plaintiff as first user and therefore owner is entitled to relief.

The incontestable status of plaintiff's Lanham Act registrations should afford plaintiff the right to use them in California without any restrictions, even if incontestability is deemed purely defensive in nature.

ACTUAL CONFUSION HAS OCCURRED AND LIKELIHOOD OF CONFUSION OBVIOUSLY EXISTS BETWEEN PLAINTIFF'S EARLIER USE OF "MISTER DONUT" AND DEFENDANTS' SUBSEQUENT USE OF "MR. DONUT."

The district court seems to be under the clearly erroneous impression that infringement is measured by the existence of competition, rather than confusion or likelihood of confusion between the marks in question. This is evident because the district court made no finding relating to confusion or likelihood of confusion of the marks, even though plaintiff had urged it to do so (R. 542). Rather, the Court merely concluded the parties were not engaged in competition (R. 582). Consequently, it must be assumed the district court completely misunderstood the basic test of infringement applicable in this case.

The Lanham Act, 32(1), 15 U.S.C. §1114(1), provides that

"Any person who shall . . . use in commerce any . . . colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake or to deceive; or . . . imitate a registered mark and apply such reproduction . . . to . . . signs . . . intended to be used in commerce on or in connection with the sale . . . of goods or services on or in connection with which such use is likely to cause confusion or to cause mistake, or to deceive; shall be liable in a civil action . . . for the remedies hereinafter provided."

"Colorable imitation" is defined under the Lanham Act, §45, 15 U.S.C. §1127, as including any mark which so

resembles a registered trademark as to be likely to cause confusion or mistake or to deceive. This statutory requirement, clearly supported by innumerable cases, defines a simple and clear measure of infringement which apparently was ignored by the district court.⁶ *The Fleischmann Distilling Corp. v. Maier Brewing Co.*, 314 F.2d 149 (9th Cir. 1963); *Paul Sachs Originals Co. v. Sachs*, 325 F.2d 212 (9th Cir. 1963). Competition is not even required in cases of unfair competition. *Phillips v. The Governor & Co.*, 79 F.2d 971 (9th Cir. 1935).

The record is replete with evidence that not only is confusion likely between plaintiff's MISTER DONUT mark and defendants' MR. DONUT mark, but that confusion has actually occurred. Geraldine Messinger testified that she was interested in obtaining a MISTER DONUT franchise from plaintiff in California, but did not when she discovered defendants' inferior MR. DONUT operation. When asked whether there might be some connection between the two she indicated that she "had no idea whether there was or was not a connection" and that she "had no way of knowing" (R.T. 308, 309). Likelihood of confusion was also evidenced by the testimony of John E. Sullivan and Carlos W. Parker, both of whom testified that they were interested, prospective franchisees who discontinued their interest because of the strong likelihood of confusion between the marks in question. (R.T. 252-256, 296). This testimony establishes confusion on the franchising level in which both parties are involved. Confusion on the less

⁶ The district court apparently applied a measure of liability that was used in the infancy of the law of unfair competition and which was aimed at preventing a fraud where one party sought to pass off or palm off his goods as those of another. There the question of intent played an extremely important role but today the law has passed far beyond this limited concept of "palming-off" in determining what are or what are not unfair practices in business dealings. See VANDENBURGH, TRADEMARK LAW AND PROCEDURE, page 102 (1959).

sophisticated retail sales level is even more likely. The defendant David K. Jones admitted that likelihood of confusion was obvious and probable, particularly in view of the imminent expansion of the plaintiff into Orange County. The following colloquy took place during the deposition of the defendant David Keith Jones on April 22, 1965:

Q. 'You said there would be no confusion under those conditions?'

A. 'There would be confusion.'

Q. 'In other words, they are substantially the same in print?'

A. 'Yes.'

Q. 'That is why you object to the establishment of MISTER DONUT, plaintiff's operation, in Orange County; is that correct?'

A. 'Yes.'

Q. 'In other words, do you believe that if someone drove down one street and saw your shop, and then on a street close by and saw a MISTER DONUT shop, plaintiff's, they might associate the two and consider them as being the same operation?'

A. 'Possibly.'

In addition, the stipulated facts in the Pre-Trial Conference Order fully support the probability of confusion. Stipulated Fact (Q) reads: "'MR.' is an abbreviation of 'MISTER'. Euphonically there is no difference between 'MR.' and 'MISTER,' and the two terms are identical in meaning." (R. 394) The substantial identity of the marks in issue and the absolute identity of the operations of the parties in operating and franchising donut shops, the manner of use of the marks on signs, boxes, bags, etc., as well as the substantial similarities in advertising techniques leaves

no doubt that there is obvious likelihood of confusion among the purchasing public.

DEFENDANTS HAVE INFRINGED PLAINTIFF'S VALID FEDERAL REGISTRATIONS 683,370 AND 668,784 FOR THE MARK "MISTER DONUT" BY ADOPTING AND USING "MR. DONUT" WITH CONSTRUCTIVE KNOWLEDGE OF PLAINTIFF'S EARLIER USE OF "MISTER DONUT" IN THE SAME BUSINESS.

The plaintiff's mark MISTER DONUT was registered under The Lanham Act for snack bar services under Registration No. 668,784 (Ex. 3) on Oct. 21, 1958, and for flour, filling and jellies for doughnuts, coffee and vegetable shortening in Registration 683,370 (Ex. 2) on August 11, 1959. These registrations are, prima facie evidence of the plaintiff's "exclusive right to use the registered mark in commerce on the goods or services specified in the registration . . ." (Lanham Act, § 33(a), 15 U.S.C. 1115a) subject to legal or equitable defenses which defendants assert. The validity of these registrations was sustained by the district court (R. 583). Since as noted in the preceding section of this brief there is actual confusion and likelihood of confusion between the defendants' MR. DONUT and plaintiff's registered MISTER DONUT, defendants' activities obviously constitute infringement under 15 U.S.C. § 1114(1) which is actionable by the plaintiff in the absence of an affirmative defense.

SINCE DEFENDANTS HAD CONSTRUCTIVE KNOWLEDGE OF PLAINTIFF'S MARK MISTER DONUT AND HAVE ACTUALLY DAMAGED PLAINTIFF'S INTERSTATE BUSINESS, THEIR ASSERTED DEFENSES ARE NOT SUSTAINABLE.

Essentially, the district court agreed with two defenses raised by the defendants. First, the district court con-

cluded that defendant's adoption of MR. DONUT was without actual knowledge of plaintiff's prior use at a time just before plaintiff's registrations Nos. 683,370 and 668,784 issued, and therefore came within the exception of the Lanham Act § 33(b) 5; 15 U.S.C. 1115(b)5. Secondly, the district court concluded that defendants' use of MR. DONUT does not come within the proscriptions of the Lanham Act because the mark is not used "in commerce" within the meaning of 15 U.S.C. 1114(1). The district court rejected the other defenses raised, including the defense of fraud in acquiring the registrations. We shall discuss in the next sections of this brief the reasons why the district court was in error in sustaining these two affirmative defenses.

DEFENDANT'S ADOPTED "MR. DONUT" AS A TRADEMARK WITH CONSTRUCTIVE KNOWLEDGE OF PLAINTIFF'S PRIOR REGISTRATIONS NOS. 683,370 AND 668,784, BECAUSE AT THE TIME OF SUCH ADOPTION THE ASSIGNMENT TO PLAINTIFF OF THE MR. DONUT REGISTRATION, AND THE PUBLICATION OF AN APPLICATION FOR REGISTRATION OF MISTER DONUT WERE OF PUBLIC RECORD IN THE PATENT OFFICE.

The defense that defendants' adopted MR. DONUT without knowledge of plaintiff's prior use of MISTER DONUT is one of the specifically defined defenses permitted under the Lanham Act § 33(b); 15 U.S.C. 1115(b).

Insofar as pertinent this section as amended reads:

If the right to use the registered mark has become incontestable under Section 15 hereof, the registration shall be conclusive evidence of the registrant's exclusive right to use the registered mark in commerce on or in connection with the goods or services specified in the affidavit filed under the provision of said section 15 subject to any conditions or limitations stated

therein except when one of the following defenses of defects is established: . . . (5) That the mark whose use by a party is charged as an infringement was adopted without knowledge of the registrant's prior use and has been continuously used by such party or those in privity with him from a date prior to registration of the mark under this Act or publication of the registered mark under subsection (c) of section 12 of this Act: *Provided, however*, That this defense or defect shall apply only for the area in which such continuous prior use is proved; . . .”

Section 33(b) of the statute has been judicially construed to preclude defendant's good faith or ignorance of plaintiff's prior adoption and registration as a defense. *Dawn Donut Co., Inc. v. Hart's Food Stores, Inc.*, 267 F. 2d 358, 362, (2nd Cir. 1959); *American Foods, Inc. v. Golden Flake, Inc.*, 312 F. 2d 619, 626, (5th Cir. 1963); *Hot Shoppes, Inc. v. Hot Shoppe, Inc.*, 203 F. Supp. 777, 780 (M.D. N.C. 1962); *Nielsen v. American Oil Co.*, 203 F. Supp. 473, 477 (D. Utah 1962); *Quality Courts United v. Quality Courts*, 140 F. Supp. 341, (M.D. Pa. 1956).

Plaintiff claimed defendants could not assert a defense of innocent adoption because it had both actual knowledge and constructive knowledge of plaintiff's earlier use. Plaintiff's claim of constructive knowledge is based upon (1) its recorded ownership of the Ragsdale registration at the time defendants first used MR. DONUT, (2) the prior publication of the application which matured into registration 668, 784 (Ex. 2) and (3) California Law.

Accepting the Court's conclusion that the defendants did not have mere *actual* knowledge of the plaintiff's prior use of the mark MISTER DONUT and MR. DONUT, the defendants have nonetheless failed to sustain the burden cast upon them to prove that they did not have knowledge within the mean-

ing of 15 U.S.C. 1115b, of the plaintiff's prior use of MISTER DONUT at the time it first adopted MR. DONUT as a trademark. The plaintiff is still entitled to judgment because the defendants had *constructive knowledge* of the plaintiff's trademarks MISTER DONUT and MR. DONUT, and since the defendants' burden under 15 U.S.C. 1115(b) is to prove that they lacked knowledge of any kind, whether actual or constructive, their constructive knowledge of the plaintiff's trademark registrations precludes them from establishing a defense under this section.

The defendants had constructive knowledge of the plaintiff's prior use of the mark MR. DONUT because at the time they first used the mark MR. DONUT in December 1957, publicly available records in the patent office showed that the plaintiff claimed ownership of the trademarks MR. DONUT and MISTER DONUT. Of the many Patent Office records that were publically available the most pertinent were the Ragsdale Registration No. 427,509 (Ex. 4) for the mark MR. DONUT which was registered under the Act of 1905 and the recorded assignment of that registration to plaintiff (Ex. 5). The plaintiff acquired the Ragsdale registration from the estate of Finis L. Ragsdale for \$100.00 by an assignment dated July 17, 1956 which assignment was recorded in the United States Patent Office on July 23, 1956, more than a year before the defendants' first use of MR. DONUT (R. 580). This registration was constructive notice to the defendants of the plaintiff's prior use and claim to the mark MR. DONUT because the Lanham Act, § 22, 15 U.S.C. 1072, expressly provides that a registration on the Principal Register or under the Act of 1905 shall constitute *constructive notice* of registrant's claim of ownership of the mark. That section states:

Registration of a mark on the principal register provided by this Act or under the Act of March 3, 1881,

or the Act of February 20, 1905, shall be constructive notice of the registrant's claim of ownership thereof.

This section of the Lanham Act was considered at the time of the enactment of the Lanham Act, as one of the significant advantages of the Lanham Act over earlier acts. As stated in *Commentary on The Lanham Trade-mark Act* by Daphne Robert, following 15 U.S.C.A. § 1024, page 265, 280 it was stated:

The greatest single advantage of a principal registration is that it is constructive notice of the registrant's claim of ownership of the mark. This means simply that so long as a mark remains on the Principal Register, everyone is charged with notice of the claim of ownership, and no rights may be claimed in the mark by another who commenced to use it after the registration issued. In fact, no rights may be claimed if the use commenced after the mark was published in the Official Gazette for opposition purposes. It means that such use is an unlawful use and cannot be justified by a claim of innocence, good faith or lack of knowledge. Its practical effect is to give nationwide effect to a principal registration, providing notice to the intrastate users as well as others, and thereby eliminating one of the weaknesses inherent in prior statutes.

The practical importance of this notice provision in giving nationwide effect to the Lanham Act and in foreclosing defenses of innocent adoption of infringing marks which might arise many years later when it would be difficult for a plaintiff to disprove claims of innocence by a latecomer was soon recognized in *Sterling Brewers, Inc. v. Cold Spring Brewing Corp.*, Case 1, 100 F. Supp. 412 (D. Mass.

1951). The court after quoting from the Commentary of the Act, by Daphne Robert, *supra*, went on to state:

The same author in the 'New Trademark Manual' 1947, sums up the situation as follows: '. . . This answers the question so often asked "What does my registration give me?'. Up to now, there was good reason for asking the question, and lawyers and judges were frequently hard put to find a satisfactory answer. . . It's practical effect is to give nationwide coverage to a Federal registration. . . (I)t provides a sense of security to the registrant by preserving for him the right to expand his market at a later date without fear of having it usurped by a newcomer. The prior laws did not enlarge the commonlaw, but the commonlaw to this extent is now supplanted by the statute.'

This important feature of providing a registrant with a "sense of security" is subverted if the plaintiff in this case cannot rely upon a recorded assignment of a registration for notice at least during the period of time that the assignment and registration remain *prima facie* valid instruments.

However, the district court erroneously decided that as a matter of law plaintiff could not rely upon the Ragsdale registration to give defendants constructive notice of the plaintiff's claim of ownership. Although the court acknowledged the assignment document recited a transfer of goodwill and that it was recorded in the United States Patent Office on July 23, 1956 (R. 580), it concluded that this assignment document did not constitute a valid assignment because it was in gross and did not involve transfer of customer lists, merchandise, equipment, recipes or goods from the assignor. (R. 582). The district court's conclusion of law that the assignment of the Ragsdale Re-

gistration was invalid is not only erroneous, but also it begs the real question.⁷ The real question is not whether the Ragsdale assignment is valid, but rather, whether the recording of that assignment under the Lanham Act, § 10, 15 U.S.C. 1060 placed defendants on notice that plaintiff claimed ownership under 15 U.S.C. 1072.

The Ragsdale assignment (Ex. 5) was duly recorded in the Patent Office on July 23, 1956 under the provisions of the Lanham Act § 10, 15 U.S.C. 1060, which in part provides:

Assignments shall be by instruments in writing duly executed. Acknowledgment shall be prima facie evidence of the execution of an assignment and when recorded in the Patent Office the record shall be prima facie evidence of execution.

The recorded Ragsdale assignment was therefore prima facie evidence of plaintiff's ownership of the registration from its recording in 1956. By virtue of the recorded assignment, anyone checking the Ragsdale Registration would find *ONLY* the plaintiff as owner. And as assignee, plaintiff was entitled to the benefits of the Lanham Act, § 22, 15 U.S.C. 1072. Thus taken together, the Lanham Act, § 10 and § 22, provide simply that one purporting to be an assignee can give the world constructive notice that he claims an interest in a particular registration. The district court's opinion however, would require that the assignment be valid and that assignee be prepared many years later to withstand any attacks on the validity of the acquisition if the assignee wishes to enjoy the benefit of the notice provisions.

⁷ We will point out in a subsequent section dealing with defendants' infringement of the Ragsdale Registration why the district court is erroneous in holding the assignment invalid.

The present case points up the difficulties presented to a trademark owner who wants to maximize his protection. Had the plaintiff been aware that the equitable owner of the Ragsdale Registration was Jean Ziebell it would have sought to obtain the assignment from her and perhaps also the estate. But if it had, just how much equipment or merchandise would have to have been taken, and how extensive a use of recipes and customer lists would have to have been made to preclude a subsequent challenge? And to what extent would plaintiff have to prove this use to rebut evidence if Ziebell with or without approval continued to use the mark? And in this connection keep in mind no evidence was ever offered by defendants that plaintiff did not, receive merchandise, customer lists or recipes from the estate, and yet the district court concluded from the circumstantial evidence of Ziebell's continued use that plaintiff's acquisition must have been in gross.

A comparison of 15 U.S.C. 1072 and 1115(a) suggests that the purpose of the constructive notice function of a registration is subverted if it is subjected to collateral attack. 15 U.S.C. 1115(a) which defines the effect of an "incontestable" registration also permits a defendant to prove ". . . *any legal or equitable defense or defect. . .*" to such registrations. But unlike 15 U.S.C. 1115(a), no provision is made in the Lanham Act for contesting the constructive notice provisions of 15 U.S.C. 1072. It logically follows that it was the purpose of the Act to permit a defendant to establish certain defenses challenging an "incontestable" registration, but it was not the purpose of the Act to permit a defendant to challenge the effectiveness of the constructive notice provision of the Act.

Perhaps a registration should not serve as constructive notice of a claim of ownership under 15 U.S.C. 1072 where there is an adjudication or record in the Patent Office that rebuts the prima facie claim of exclusive right under 15

U.S.C. 1115(a), or where an innocent defendant acted in reliance upon such a record. But this is and was not the case in the present civil action. At the time defendants adopted their mark MR. DONUT the only Patent Office records then available to defendants clearly showed the plaintiff had exerted every possible claim of ownership to the marks MR. DONUT and MISTER DONUT, not only through the acquisition of the Ragsdale Registration 427,509 but also through several pending applications that later matured into registrations under which the plaintiff now seeks relief. There was in fact no evidence then of record which rebutted plaintiff's prima facie right. And had the defendants sought evidence as to the identity of the true owner of the Ragsdale registration 427,509 they could not have avoided actual knowledge of the plaintiff's claim. But the defendants did not seek such evidence, and in fact never relied upon the allegation of a defective transfer which they now claim to be so important to their rights. To emasculate the notice function of the Ragsdale registration 427,509 at a time when it was prima facie the property of plaintiff merely because ten years after the assignment was recorded a court found that there was no transfer of customer lists., etc., would effectively reward the defendants' lack of diligence in searching the record. Such a result clearly thwarts an intended effect of the Lanham Act which is to make "actionable the deceptive and misleading use of marks . . .". Lanham Act, § 45; 15 U.S.C. 1127.

While we believe that the Ragsdale registration, whether or not properly assigned, serves as constructive notice of plaintiff's claim of ownership there are other reasons for holding that defendants had constructive knowledge of plaintiff's claim. Constructive knowledge of any other MISTER DONUT registration or record at the time defendants adopted MR. DONUT would preclude the asserted defense of innocence of 15 U.S.C. 1115(b).

At the time defendants started to use MR. DONUT the Patent Office had already published Registration 668,784 (Ex. 2) (then Serial number 698,978) in the Official Gazette of the Patent Office on November 12, 1957 pursuant to the Lanham Act § 12(a), 15 U.S.C. 1062(a). (See Notice of Publication in Ex. C). This publication of the Official Gazette was easily available to defendants under the rules of the Patent Office (see Trademark Rules of Practice § 1.12 (1956 Ed.) and under 15 U.S.C. 1057(e). Furthermore, it would have been found by defendants attorneys had defendants asked the attorneys to check the availability of the mark MR. DONUT. The attorneys would have made a conventional trademark search, either directly in the Patent Office records or through a trademark search service. In either case plaintiff's application would have come to defendants attention.⁸ The effectiveness of a publication under the Lanham Act § 12(a) to give constructive notice of a claim of trademark ownership is not dealt with specifically in the Act. However it is logical to interpret a publication of a mark under section 12(a) as constructive notice of a claim of ownership.

As previously noted plaintiff's MISTER DONUT registration 668,784 (Ex. 2) was published under Lanham Act, § 12(a) on November 12, 1957 before defendants' first use of MR. DONUT on December 3, 1957. Under Lanham Act, § 33(b)5, defendants' defense of innocense is valid only if (1) their *use* was without *knowledge* of the registrant's prior use and (2) their *use* was continuous from a date *prior to registration*. Thus, the requirement that defendants have no knowledge is not tied to the date of plain-

⁸ Private trademark search services ordinarily file publications in the official gazette for the express purpose of citing them when searching the records. Further, it is common practice for trademark counsel to review the weekly Official Gazette for purposes of drawing the attention of their clients to relevant publications. See VANDENBURGH, TRADEMARK LAW & PROCEDURE, pp. 166-7 (1959).

tiff's registrations. Rather it is defendants' *use* that is tied to plaintiff's registrations. Thus this portion of the statute broadly requires that the defendants be totally free of knowledge regardless of the date of registration. Consequently the finding of the district court (F. 18, R. 581) that defendants' use prior to registration is a defense under 1115(b)5 is in error because it failed to consider whether the earlier publication of plaintiff's MISTER DONUT mark for opposition imposed constructive notice on defendants. Under Lanham Act, § 15, 15 U.S.C. 1065, an incontestable status for a registration can only be obtained if the registration was "*published*" before the valid use of a mark in any state by another. Since the right to obtain an incontestable mark under section 15 is keyed to the publication date it is logical to consider this same publication date as an effective date for impugning constructive notice to a careless latecomer.

Nothing in Lanham Act, § 22, 15 U.S.C. 1072, requires that constructive notice be limited to the dates of registration. And indeed there is authority which fully supports plaintiff's contention that the publication on November 12, 1957 of plaintiff's MISTER DONUT registration should serve as constructive notice of a claim of ownership. In the *Commentary on The Lanham Trademark Act, supra* Daphne Robert stated in respect to a second user:

"In fact, no rights may be claimed if the use commenced after the mark was published in the Official Gazette for opposition purposes."

A similar view has also been advanced in Vandenberg, TRADEMARK LAW AND PROCEDURE, pp. 55, 56 (1959) where the author charts the extension of rights under a federal registration, and states an incontestable registration, such as plaintiff's registration (Ex. 2,) may preclude a second user whose use starts after publication for opposition, citing sections 22 and 33(b) of the Act. These views of trade-

mark commentators have found support in case law. In *Aluminum Fabricating Co. v. Season-All Window Corp.*, 160 F. Supp. 41, 46 (S.D.N.Y. 1957) (dictum), the court stated:

Both prior to and under the Lanham Act the party seeking to limit the registered owner's rights must have adopted the mark prior to the publication of the registered mark and without knowledge of the registrant's prior use.

Since "constructive notice" is a substantive issue which is not wholly defined in the Lanham Act we may look to California law for guidance, provided such law is not inconsistent with the intent of the Lanham Act to ". . .protect registered marks . . .from interference by State . . .legislation." Under Cal. Bus. & Prof. Code § 14,270 the original owner was the first to use whether the use was within or beyond the limits of the state. This statute has been construed to preclude subsequent infringing use regardless of whether the latecomer had actual knowledge or had fraudulent intent. See *Stork Restaurant v. Sahati*, 166 F. 2d, 348 (9th Cir. 1948); *Western Stove Co. v. George D. Roper*, 82 F. Supp. 206 (D.C. Cal. 1949). Surely if under California law actual knowledge is unnecessary to afford relief to the owner of a trademark and the owner is the first to use, official publications intended to give notice and publicly available records of plaintiff's first use and acquisition of Mr. DONT should function as constructive notice to defendants of plaintiff's prior claim.

ANY INTRASTATE ACTIVITIES OF THE DEFENDANTS WHICH AFFECT THE PLAINTIFF'S FEDERALLY REGISTERED TRADEMARKS ARE PROSCRIBED BY THE LANHAM ACT. DEFENDANTS' INTRASTATE USE OF A MARK CONFUSINGLY SIMILAR TO PLAINTIFF'S REGISTERED MARK IS SUBSTANTIALLY AFFECTING INTERSTATE COMMERCE SINCE (1) PLAINTIFF IS ACTIVELY ENGAGED IN THE BUSINESS OF SEEKING FRANCHISES IN ORANGE COUNTY CALIFORNIA, (2) AT LEAST THREE PROSPECTIVE FRANCHISEES HAVE DISCONTINUED DEALING WITH THE PLAINTIFF BECAUSE OF THE DEFENDANTS' INTRASTATE ACTIVITIES, AND (3) PLAINTIFF IS ALREADY OPERATING AT LEAST FIVE MISTER DONUT SHOPS IN CALIFORNIA.

It is now well settled that the Lanham Act proscribes infringements committed in purely intrastate commerce if such infringements affect interstate commerce. This principle was recognized in this circuit in *Stauffer v. Exley*, 184 F. 2d 962 (9th Cir. 1950).

In the present civil action the defendants admit that their mark is confusingly similar to plaintiff's registered trademark, but argue that their activities are purely local and are not such as to affect interstate commerce. As there is no substantial dispute as to the facts, the issue to be resolved is whether the district court was correct in holding defendants' intrastate use of a mark confusingly similar to plaintiff's, as a matter of law, affects commerce within the meaning of the Lanham Act. In the *Stauffer* case, this Court stated the guidelines to be followed in measuring the jurisdictional extensions of the Lanham Act:

Under the present Act, however, it need only be proved that the infringer has used the copy or imitation in commerce which Congress has power to regulate. An infringement committed in intrastate commerce but affecting interstate commerce could clearly

be regulated by Congress and thus would be within the present Act.

This court has therefore decided that jurisdiction exists if the defendants' activities affect interstate commerce *without* reference as to whether or not the effect is substantial. Such broad interpretation of the Lanham Act has been widely accepted. *Steele v. Bulova Watch Co.*, 344 U.S. 280 (1952). *Ramirez & Feraud Chili Co. v. Las Palmas Food Co.*, 146 F. Supp. 594 (S.D. Cal. 1956). See also Robert, *Commentary on Lanham Trade-Mark Act*, following 15 U.S.C.A. 1024, pp. 268, 269. But see, *Pure Foods, Inc. v. Minute Maid Corp.*, 214 F. 2d 792 (5th Cir. 1954), *cert. denied* 348 U.S. 888 (1954).

The plaintiff already has been directly affected by the defendants' infringing use of the mark MR. DONUT because prospective California franchisees Parker, Messinger and Sullivan have refused to purchase franchises from the Massachusetts plaintiff until this matter is resolved. It is hard to imagine how much more plaintiff's interstate business can be affected than to have prospective franchisees refuse to buy franchises because of the defendant. But the district court totally ignored this most direct evidence of damage to the plaintiff's registrant's interstate business and did not even make a finding relative to it, although specifically requested in proposed findings offered by the plaintiff (R. 568). Moreover, the plaintiff's growing business of promoting franchises in California in direct competition with the defendants' business was also completely ignored by the district court. And while plaintiff presently operates five shops in the San Francisco area, there is uncontradicted testimony that it has been unable to do so in Los Angeles and in Orange County because of defendants. Under these circumstances it is plainly obvious that

defendants' local acts will whittle away plaintiff's interstate business. *Stauffer v. Exley, supra*.

Decisions in other circuits are in accord with the guidelines of *Stauffer* and indicate jurisdiction exists in cases less compelling than the instant one. In *Dawn Donut Co. v. Hart's Food Stores, Inc.*, the Second Circuit expressly held that when the registrant prior user could properly show its intent to enter doughnut retailing in New York in competition with the later user, the later user would be enjoined from using the infringing mark. The operation of a single motel under a mark similar to the plaintiff who franchises its name to a large number of motel operators in various states was held to affect commerce in *Lyon v. Quality Courts United*, 249 F.2d 790 (6th Cir. 1957). In the *Lyon* case the court found for the plaintiff on a motion for summary judgment even though there was no finding that plaintiff actually lost business as in the instant case. In *Iowa Farmers Union v. Farmers' Educational & Coop. Union*, 247 F.2d 809 (8th Cir. 1957) the court held defendant's operation of a single local union competed for membership with plaintiff's interstate organization, even though there was no clear finding that plaintiff operated unions in proximity to defendant's union or that plaintiff actually lost business. Consequently defendant's action was held to violate plaintiff's federally registered trademark. In *Pure Food v. Minute Maid Corp.*, defendant's local sales of meat products to retailers under a mark confusingly similar to plaintiff's was considered an infringement of plaintiff's registered trademark, where plaintiff was engaged in interstate commerce. Again, there was no finding here of direct loss of business. In *Steele v. Bulova Watch Co.*, the defendant, a resident of Texas, was amenable to the proscriptions of the Lanham Act even though all manufacture and sale of watches under the infringing mark "Bulova" took place in Mexico. In affirming that decision, the Supreme Court rec-

ognized the broad applications of the Lanham Act to activities in which defendant purchased component parts of watches in the United States, and in which spurious watches filtered into the United States. The Court also acknowledged the *possibility* that defendant's activities could reflect upon plaintiff. There was no finding, however, that plaintiff had actually lost business. In *National Tuberculosis Ass'n v. Summit Co. T. & H. Ass'n*, 122 F. Supp. 654 (N.D. Ohio 1954) the defendant's use of plaintiff's monogram in a single county for charitable purposes was held to interfere with plaintiff's use of the mark in interstate commerce. In *Admiral Corp. v. Penco, Inc.*, 106 F. Supp. 1015 (W.D. N.Y. 1952) defendant's intrastate use of plaintiff's federally registered trademark was held to come within the jurisdiction of the Lanham Act. In *Time Inc. v. Life Television Corp.*, 123 F. Supp. 470 (D. Minn. 1954) defendant's operation of a single retail store selling T. V. sets was deemed to make defendant amenable under the Lanham Act for infringing plaintiff's trademark LIFE which was used on its national magazine and in connection with a television station which it partially owned.

In *Cole of California v. Collette of California*, 79 U.S.P.Q. 267 (D. Mass. 1948) defendant's local sales were held to infringe plaintiff's registered trademark, the court stating, ". . . it is immaterial that defendant is engaged only in local sales in view of the fact that those local sales adversely affect plaintiff's interstate sales, *Id.* at 268. In *Bavarian Brewing Co. Inc. v. Anheuser-Busch, Inc.*, 150 F. Supp. 210 (S.D. Ohio 1957) defendant was enjoined even though it was not operating in plaintiff's area but had merely expressed an intent to so expand its operations.

The defendants urge that the effect of defendants' activities on interstate commerce must be "substantial." But this is contrary to the *Stauffer* case as well as the thrust of the *Steele* case and is obviously inconsistent with con-

gressional intent.⁹ Furthermore, decisions under other statutes clearly indicate that where Congress intends to control commerce which it may lawfully regulate, all intrastate commerce which affects interstate commerce may be controlled. *Local 167, IBT et al. v. United States*, 291 U.S. 293 (1933) [Sherman Act violated by intrastate monopolization of poultry sales and use of poultry coops]; *Santa Cruz Fruit Pack Co. v. NLRB*, 303 U.S. 453 (1937) [National Labor Relations Act violated by company purely in intrastate business interfering with employees joining or forming a union]; *United States v. Darby*, 312 U.S. 100 (1941) [Fair Labor Standards Act violated by intrastate employment of workers at other than minimum wages to make goods that may be shipped in interstate commerce].

The concept that commerce must be substantially affected appears to stem from cases decided before the enactment of the Lanham Act with its broad jurisdictional sweep. See, *Pure Oil v. Puritan Oil Co.*, 127 F.2d 6 (2nd Cir. 1942). But even these cases indicate that all that is required is a casual relation between defendant's intrastate activity and plaintiff's interstate business to bring it within the ambit of Congressional regulation. In the *Pure Oil* case, defendant's operation of a single gas station selling 95 per cent of its products to local customers was deemed "not plainly unsubstantial" in a well-reasoned opinion by Learned Hand, in which he stated: ". . . the amount does not matter if *pro tanto* the business violates the Act." Indeed, earlier cases even recognized the right of plaintiff-registrant to stop a defendant before it had even used its name in intra-

⁹ The legislative history includes the following: "There can be no doubt under the recent decisions of the Supreme Court of the constitutionality of a national act giving substantive as distinguished from mere procedural rights in trademarks in commerce . . . and . . . a sound public policy requires that trademarks should receive nationally the greatest protection that can be given them. (S. Rep. No. 1333, U. S. Code Congressional Service, 79th Cong. 2nd Sess. 1946, p. 1277)

state commerce. Mere organization under corporate law of a company having a name confusingly similar to plaintiff's was actionable. *Standard Oil Company of New Mexico, Inc. v. Standard Oil Company of Cal.*, 56 F.2d 973 (10th Cir. 1932).

The District Court erroneously relied upon *Fairway Foods, Inc. v. Fairway Markets, Inc.*, 227 F.2d 193 (9th Cir. 1955) in concluding that the defendant's activities did not come within the prohibitions of the Lanham Act. That case and cases similar to it, such as *Peter Pan Restaurants, Inc. v. Peter Pan Diner, Inc.*, 113 U.S.P.Q. 481 (D.R.I. 1957), are plainly distinguishable on their facts. In those cases it was considered conclusive that no evidence was presented that defendant's sales were other than exclusively to local residents. Here there is evidence that a substantial number of occupants of cars having out-of-state licenses entered defendants' MR. DONUT shops. In those cases, moreover, there was no evidence that defendants' intrastate sales had even a remote or indirect effect upon interstate commerce, let alone the activities of the trademark registrant. On the other hand, in the present case, defendants' intrastate sales under MR. DONUT have directly affected plaintiff's intrastate franchising. John E. Sullivan, a Californian in open court, and Carlos W. Parker, a resident of Iowa and his daughter, a resident of California, have testified that they are not interested in obtaining a California franchise from the plaintiff because of the defendants' activities. Regardless of whether the defendants' sales are wholly local it is perfectly obvious that those sales have precluded the plaintiff from selling franchises in California. How much more effect defendants' intrastate activities must have on the plaintiff before the Lanham Act applies is hard to imagine. But where franchises sell for approximately \$25,000.00 and three people have already indicated that they don't want to purchase plaintiff's fran-

chises because of the defendants' activities it is perfectly apparent that the amounts involved far exceed even the minimal jurisdictional amounts of \$10,000.00 required in ordinary diversity cases.

Congress intended to maximize the effect of the Lanham Act through the commerce clause of the Constitution. "Commerce" is defined in the Lanham Act, § 45 (15 U.S.C. 1127) as: ". . . all commerce which may lawfully be regulated by Congress." And in the same section the "Intent of the Act" was defined in part as:

"The intent of this Act is to regulate commerce within the control of Congress by making actionable the deceptive and misleading use of marks in such commerce; to protect registered marks used in such commerce from interference by State, or territorial legislation; to protect persons engaged in such commerce against unfair competition; to prevent fraud and deception in such commerce by the use of reproductions, copies, counterfeits, or colorable imitations of registered marks; . . ."

Since these definitions make it abundantly clear that Congress intended to exercise all its rights under the commerce clause, the decisions of the Supreme Court in recent civil rights cases which define the extent of this power are quite relevant, notwithstanding the opinion of the district court that they are not applicable, ". . . because the court was dealing with a specific statutory provision . . ." (R.583). If Congress intended to exercise its full powers in the Lanham Act it should follow that if the Supreme Court concludes that Congress has the power in an unrelated statute to regulate commerce of the type in which the defendants are engaged, that such activities also come within the prohibitions of the Lanham Act. In these cases, *Katzenbach v.*

McClung, 379 U.S. 294 (1964); *Heart of Atlanta Motel, Inc. v. United States*, 379 U.S. 241 (1964), the Supreme Court concluded that Congress did have the power to regulate commerce of the type in which the defendants were engaged. Consequently, if Congress has the power to require an Alabama restaurant owner who sells only to Whites to also serve Alabama Negroes inside his restaurant, surely Congress has the power to authorize this court to require a California snack bar owner not to use the trademark MR. DONUT in connection with the operation of his shops where the mark is demonstrably confusing and has caused damage to the owner of the Federally registered trademark MISTER DONUT. Whatever vitality remains in cases such as the *Fairway Foods* case and the *Peter Pan* case after these recent civil rights decisions of the Supreme Court need not be considered because those cases, as indicated above, are clearly distinguishable on their facts. In the present case defendants' operations are directly in interstate commerce because approximately 5% of the cars that stop at the defendants' shops bear out-of-state license plates. And while the district court didn't make a specific finding to that effect, it did concede that there were at least a few customers driving to defendants' shops in automobiles bearing non-California license plates who were regular customers (R.581).

Defendants also stipulated that a number of customers were Marines in uniform (R. 395). Since the activities of uniformed Marines, including their commercial activities, are obviously regulable by Congress, the defendants' sales to those Marines come within the definition of commerce under the Lanham Act.

SINCE THE RAGSDALE REGISTRATION WAS ASSIGNED BY A DOCUMENT RECITING TRANSFER OF GOODWILL FROM THE RECORD TITLE HOLDER TO THE PLAINTIFF AS A BONA FIDE PURCHASE FOR VALUE WHILE THIS MARK WAS ACTUALLY IN USE AND GENERATING GOODWILL, THE PLAINTIFF ACQUIRED VALID TITLE TO THE RAGSDALE REGISTRATION.

The district court held that defendant did not infringe the plaintiff's Ragsdale registration 427,509 because the assignment of the registration was ". . . in gross and conveyed no title or trademark rights to plaintiff" (R. 580, 582). This erroneous conclusion of law is based on a misunderstanding by the district court of the relevant law. The district court believed, because there was no transfer of a customer list, merchandise, equipment, recipes or goods from the assignor when the Ragsdale registration was assigned to the plaintiff that there was no goodwill assigned even though the assignment document recited transfer of goodwill. (Ex. 5) But the district court overlooked the fact that since the mark was in use at the time of the assignment (R. 579) that it was generating goodwill; that the record title holder at the time of the assignment was the estate of Finis Ragsdale; that at the time of the assignment the plaintiff was an innocent purchaser for value; and, that at the time of the assignment no previous assignments to Mrs. Ziebell had been recorded and therefore any interest in MR. DONUT which she may have acquired was void as against the plaintiff as a subsequent purchaser for value consideration without notice under § 10, Lanham Act, 15 U.S.C. 1060.

The district court made extensive findings (R.579) that Ragsdale's MR. DONUT operation was transferred from Mr. Ragsdale in 1951 to Mr. Cohen and from Mr. Cohen to Mrs. Jean Ziebell. The MR. DONUT mark was then used continuously by Mrs. Jean Ziebell from February 1951 until 1959

in the exact form of the Ragsdale registration, continuously generating goodwill in the business originally established by Mr. Ragsdale. In the middle of this period of continuous use by Mrs. Jean Ziebell the plaintiff acquired record title to the Ragsdale registration 427,509 by an assignment which recited the transfer of goodwill from the estate of Finis Ragsdale for \$100.00, which assignment was recorded in the United States Patent Office on July 23, 1956 (R. 580). No evidence was offered at any time that plaintiff was anything other than a bona fide purchaser for value.¹⁰

Since the Ragsdale mark was in use at the time of the assignment to the plaintiff, goodwill existed, and therefore, the only issue before this Court relevant to the transfer was whether the assignment document (Ex. 5), which in fact recited the transfer of goodwill to the plaintiff, did in fact transfer the then existent goodwill even though there was no actual transfer of customer lists, merchandise, equipment, recipes or other goods from the assignor.

Goodwill is defined in part in BLACK'S LAW DICTIONARY (4th Ed.) as:

“GOODWILL. Something in business which gives reasonable expectancy of preference in race of competition. The custom or patronage of any established trade or business; the benefit or advantage of having established a business and secured its patron-

¹⁰ Not only did the defendants fail to impugn the innocence of the plaintiff in purchasing the registration, although it had ample opportunity to contradict plaintiff's assertions that it innocently purchased the registration when plaintiff learned the Ragsdale registration was blocking its own application for registration of MISTER DONUT, but it also failed to take depositions during the ample pre-trial discovery period of Mrs. Ragsdale, executrix of the estate of Mr. Ragsdale. It further failed to follow up answers to its own interrogatories that plaintiff's counsel and Chairman of the Board Harry Winokur were the most knowledgeable persons of the facts and circumstances surrounding the acquisition of this registration.

age by the public. The advantage or benefit which is acquired by an establishment, beyond the mere value of the capital, stocks, funds, or property employed therein, in consequence of the general public patronage and encouragement which it receives from constant or habitual customers, on account of its local position, or common celebrity, or reputation for skill or affluence or punctuality, or from other accidental circumstances or necessities, or even from ancient partialities or prejudices. It means every advantage, every positive advantage, that has been acquired by a proprietor in carrying on his business, whether connected with the premises in which the business is conducted, or with the name under which it is managed, or with any other matter carrying with it the benefit of the business.”

Since goodwill is thus defined as an intangible asset, it follows that a physical transfer of customer lists, merchandise, equipment, recipes or goods is not necessary for a transfer of goodwill. What is important is that patronage existed at the time of the transfer which could inure to the plaintiff's benefit. And merely because that patronage was being generated in the trademark MR. DONUT through sales made in the Everett, Washington store by Jean Ziebell rather than the estate of Finis Ragsdale doesn't lessen the existence of that patronage or its goodwill. Since plaintiff bought the Ragsdale registration from the estate of Finis L. Ragsdale in 1956 as a bona fide purchase for value without any prior knowledge of the 1951 sales to Cohen and Ziebell and duly recorded the assignment document in the Patent Office, the assignment comes squarely within the scope of the assignment provisions of the Lanham Act, § 10, 15 U.S.C. 1060 *supra*, which provides in part:

“An assignment shall be void as against any subsequent purchaser for a valuable consideration without notice, unless it is recorded in the Patent Office within three months after the date thereof or prior to such subsequent purchase . . .”

Because Harold Cohen and Jean Ziebell did not record their claimed assignments in the trademark *MR. DONUT* from Finis L. Ragsdale within the time limit specified, such assignments are void as against the plaintiff's assignment which was in fact duly recorded. Consequently plaintiff has received good title under the Lanham Act, § 10.

The situation presenting itself here is exactly the type of problem with which the Lanham Act, § 10, was intended to deal. The problem would have been a little more obvious had the situation arisen under slightly different but legally identical circumstances. For example, a representative of the plaintiff on passing through Everett, Washington, might have seen the donut operation without having spoken to Mrs. Ziebell or Mr. Cohen in 1956 and concluded that the mark was desirable. On return to Massachusetts the representative might then have checked the federal records to determine ownership of the Ragsdale registration. On finding the owner was the estate of Finis L. Ragsdale an approach to the estate of Finis L. Ragsdale would have been made. It's obvious that the plaintiff would deal with the record title holder under such circumstances. As a matter of fact, had Cohen and Ziebell properly recorded an assignment of the mark *MR. DONUT* in the Patent Office, the plaintiff would have attempted to purchase the mark from Ziebell rather than from the estate of Finis L. Ragsdale. What the defendants are trying to do here is to escape the consequence of their infringement by relying upon the negligence of the third party Ziebell. We see no reason for rewarding the defendants because both they and Mrs. Zie-

bell were negligent while the plaintiff was in fact diligent and did everything it could to locate the registration owner and acquire proper record title.

Recording statutes such as these are of course quite common in real estate, and superior rights of a bona fide purchaser over those of a sleeping earlier purchaser who fails to record his assignment at the proper time is well known. In the present case it is particularly unfair to penalize the diligent bona fide purchaser plaintiff who recorded its purchase when the lackadaisical, infringing defendants are trying to assert rights of unrelated persons years ago in the State of Washington as a loophole for escaping the consequences of their infringement. Thus, the evidence of Cohen and Ziebell merely establishes that there was continuous operation in the State of Washington, generating goodwill under the name MR. DONUT and that the only proper recorded assignment of the mark and the goodwill appurtenant thereto was from the Finis L. Ragsdale to the plaintiff.

The defendants have attempted to show that there was no transfer to the plaintiff of the trademark MR. DONUT with goodwill by showing there was no transfer of property; but the failure to transfer property is irrelevant to the issue of whether or not there is a transfer with goodwill. In *J. C. Hall Co. v. Hallmark Cards, Inc.*, 340 F. 2d 960 (C.C.P.A. 1965) the Court of Customs and Patent Appeals stated:

“It is a matter of no significant import with reference to its impingement upon the validity of the assignment and the rights accruing to appellee thereunder that the assignment was accomplished through an intermediary or that no tangible assets were transferred thereunder nor that the assignor held the mark only one day prior to assignment the mark to appellee.”

See also, *Black Panther Co., Inc. v. Cook Chemical Co.*, 277 F.2d 177 (C.C.P.A. 1960); *Hy-Cross Hatchery, Inc. v. Osborne*, 303 F.2d 947 (C.C.P.A. 1962). Nor is there any significance in the failure to transfer customer lists. *Blanchard Importing Co. v. David Sherman Corp.*, 146 U.S.P.Q. 139 (T.T. & App. Bd. 1965). The defendants must in fact show that Finis Ragsdale or his successors did not use the mark MR. DONUT and therefore, goodwill terminated long prior to the transfer to the plaintiff. This they clearly failed to do, and in fact, proved just the opposite. It is not incumbent upon the plaintiff to show the transfer was with goodwill or that it was in use by the assignor. *Cortes v. Schenley Distillers, Inc.*, 141 U.S.P.Q. 668 (T.T. & App. Bd. 1964).

As the legitimate owner of the Ragsdale registration the plaintiff is entitled to an injunction restraining use of the identical mark by defendants whose use did not start until ten years after the Ragsdale registration issued and more than a year after plaintiff became record title holder. (15 U.S.C. 1051).

The validity of the Ragsdale registration was never actually challenged by the defendant in any document or in any oral testimony. The only attack on the Ragsdale registration was the collateral attack on the assignment. But whatever infirmity may have occurred some ten years ago in the course of plaintiff's acquisition of the mark MR. DONUT and the Ragsdale registration, the plaintiff cured before defendant's infringement. In fact, the plaintiff actually used the mark MR. DONUT prior to the acquisition of the Ragsdale registration and filed its own application for registration of the mark MR. DONUT on August 24, 1955 (Ex. 7). That the plaintiff decided not to use MR. DONUT in the exact configuration shown in the Ragsdale registration and confined its use to a regular but sporadic use for purposes of exercising ownership rights in the mark MR. Do-

NUT, should not lessen the plaintiff's proprietary right in the mark MR. DONUT which is the dominant portion of the Ragsdale registration. See, *Alford Mfg. Co. v. Alfred Electronics*, 136 U.S.P.Q. 390 (T.T. & App. Bd. 1963), aff'd 142 U.S.P.Q. 168 (C.C.P.A. 1964).

EVEN IF THIS COURT CONCLUDES THAT THE RAGSDALE REGISTRATION 427,509 WAS NOT INFRINGED AND THE RECORDED ASSIGNMENT OF IT TO PLAINTIFF CANNOT FUNCTION AS CONSTRUCTIVE NOTICE TO DEFENDANTS OF PLAINTIFF'S PRIOR CLAIM OF OWNERSHIP OF THE MARK "MR. DONUT" THE DEFENDANTS' USE OF THE MARK "MR. DONUT" SHOULD BE LIMITED TO THE SINGLE SHOP OPENED BY THE DEFENDANTS PRIOR TO THE ISSUANCE OF THE PLAINTIFF'S INCONTESTABLE REGISTRATIONS 683,370 AND 668,784.

Defendants admit that the only MR. DONUT shop in operation before plaintiff's incontestable registration 668,784 (Ex. 3) issued was their MR. DONUT Shop No. 1 which opened in Costa Mesa, California on or about December 3, 1957.

The fifth defense under 15 U.S.C. 1115(b) expressly provides that the defense of adoption without knowledge is available only for ". . . the area in which such continuous prior use is proved." Consequently the defense of innocence is not available for defendants' shops which opened after October 21, 1958, the date of issuance of Registration 668,784 in different trade areas. Defendant D. K. Jones admitted that each shop the defendants opened after the first of necessity operated in a different area in order to avoid direct competition for identical customers. During the course of the trial he testified his first shop was approximately five miles from the next closest shop; that he selected each shop in a different trade area so that these

trade areas would not overlap and that the customers for each shop come from within 2 or 3 miles radius of that shop (RT. 371, 372). Consequently, defendants' only use of the mark MR. DONUT before issuance of the plaintiff's incontestable registration 668,784 on October 21, 1958 was the trade area within a radius of two or three miles from the first store at 135 East 17th Street, Costa Mesa, California. The very terms of the statutory defense upon which the defendants rely prohibits these defendants, who have shown use only in one local shop before plaintiff acquired its registration, to balloon the trade area normally attributed to that one local shop serving an area of no more than two or three miles to the entire area of Southern California, or even Orange County, as the district court seems to be suggesting. Having selected a mark previously owned by another, a rigid requirement that the defendants be confined to the specific area in which its first shop operated is not inappropriate. *Cf. Food Center, Inc. v. Food Fair Stores, Inc.*, 242 F. Supp. 785 (D. Mass. 1965); *John R. Thompson Co. v. Holloway*, 366 F.2d 108 (5th Cir. 1966).

THE PURPOSE OF THE LANHAM ACT TO MAKE ACTIONABLE THE DECEPTIVE AND MISLEADING USE OF REGISTERED MARKS AND TO PREVENT CONFUSION AMONG THE PURCHASING PUBLIC AND TO AFFORD MAXIMUM NATIONAL PROTECTION TO A REGISTRANT IS BEST SERVED BY PREVENTING CONTEMPORANEOUS USE BY THE LATECOMER DEFENDANT OF MR. DONUT, WHERE THE PLAINTIFF AND ITS NEARLY TWO HUNDRED FRANCHISEES TOOK EVERY STEP POSSIBLE TO ACQUIRE A NATIONWIDE RIGHT AND TITLE IN THE MARKS MR. DONUT AND MISTER DONUT AND TO PUT THE WORLD ON NOTICE OF PLAINTIFF'S CLAIM OF OWNERSHIP OF MR. DONUT AND MISTER DONUT, WHILE THE DEFENDANT TOTALLY FAILED TO TAKE EVEN THE MOST ELEMENTARY PRECAUTIONS TO DETERMINE WHETHER OR NOT THE MARK MR. DONUT WAS AVAILABLE.

A national registration system serves a number of purposes. Weighing the acts of omission by defendants against the positive steps taken by plaintiff under the Act to protect MISTER DONUT in the light of these purposes requires a conclusion that the defendants must be enjoined from further infringing use of MR. DONUT.

When a person wants to begin using a particular trademark or trade name, he can check the public records of the United States Patent Office to see if any mark confusingly similar has been registered or an application filed for registration before that person commences promoting his business under a mark which a prior user can stop that person from using. When a person discovers that there is an outstanding prior registration that would interfere with his intended use of the mark and he still wants to use the mark, he can contact the owner of the registration and obtain whatever rights he needs to enjoy the exclusive use of the chosen mark. And that is exactly what plaintiff did here. When plaintiff discovered that there was an outstanding registration of MR. DONUT, plaintiff contacted the owner

of the registration and obtained all rights in the registered mark.

If a person after investigating the United States Patent Office records and clearing up any possible obstacles to exclusive use of the chosen mark in commerce learns that he has the exclusive rights to the chosen mark, he can apply for registration of that mark. The Patent Office will not grant the registration until publishing the mark for opposition by someone like a prior user who would be damaged by the registration. And if a person with a registration continues to use his mark for five years, he can apply to have his registration made incontestable and conclusive evidence of his exclusive rights to use the mark, subject to the seven enumerated defenses in section 33(b). That is what the plaintiff did.

After taking all the possible steps plaintiff could to insure that any adverse claimant to MISTER DONUT had notice of plaintiff's claim of exclusive ownership, plaintiff proceeded to develop a tremendous business under its registered mark that has been expanding nationally progressively outward from its place of origin in Massachusetts in 1955. Now, more than ten years and many MISTER DONUT shops later, when plaintiff is franchising in California, the sleeping defendants who apparently never spent the \$25 or \$30 or less for a search of the United States Patent Office records back in 1957 which would have put them on actual notice of plaintiff's claim to ownership of MISTER DONUT and Mr. DONUT and never opposed any of plaintiff's registrations of MISTER DONUT or sought to cancel even one of these registrations, now claim that their negligence or non-feasance should be rewarded by allowing them to continue to use the mark MR. DONUT. Rewarding defendants in this fashion not only would render useless the diligence of plaintiff, but would also perpetuate a source of confusion to

the consuming public and would impair the property rights of scores of independent businessmen owning MISTER DONUT franchises. Such a result would frustrate fundamental purposes of the Trademark Act of 1946 in stimulating prospective users of marks to check them in the United States Patent Office first and of enabling a registrant to rely on his incontestable registration as conclusive proof of his exclusive right to use the mark in commerce and promote his business under that registered mark. Moreover, it would encourage individuals not to search the Patent Office records and not to take reasonable steps to see if a mark is available for adoption. Fundamental principles of equity and consistency with the statutory purpose of the Lanham Act require that the napping defendants be enjoined from further infringing use of MR. DONUT and additionally benefiting from the goodwill associated with plaintiff's MISTER DONUT promoted over a period of nearly ten years, goodwill built up to its present high value through the expenditure by plaintiff of considerable effort, time and money.¹¹

¹¹ S. Rep. No. 1333, U.S. Code Congr. Ser., 79th Cong., 2d Sess. 1946, p. 1274 which recommended passage of the Lanham Act, in part, stated: "The purpose of this bill is . . . to eliminate judicial obscurity, to simplify registration and to make it stronger and more liberal, to dispense with mere technical prohibitions and arbitrary provisions, to make procedure simple, and relief against infringement prompt and effective." See also footnote 9, *infra*, p. 37.

UNDER THE APPLICABLE STATUTORY LAW OF THE STATE OF CALIFORNIA, THE PLAINTIFF IS THE ORIGINAL OWNER OF "MISTER DONUT" AND "MR. DONUT" BECAUSE IT FIRST ADOPTED THESE MARKS BEYOND THE LIMITS OF CALIFORNIA: AND AS THE FIRST OWNER IT IS ENTITLED BY THE APPLICABLE LAWS OF THE STATE OF CALIFORNIA TO AN INJUNCTION AGAINST FURTHER USE OF AN INFRINGING MARK BY THE DEFENDANTS REGARDLESS OF WHETHER THE DEFENDANTS KNEW OF THE PLAINTIFF'S MARKS AT THE TIME THEY STARTED THEIR INFRINGING USE.

At the time the defendants first started to use their infringing trademarks in the State of California and at the time this civil action was tried, Cal. Bus. & Prof. Code, Div. 6, § 14,270, provided:

"Original owners. Any person who has first adopted and used a trademark, whether within or beyond the limits of this State, is its original owner."

This section of the Statute found its roots in the common law as originally interpreted in this State in *Derringer v. Plat*, 29 Cal. 292 (1865). In the *Derringer* case, the Supreme Court of California construed the common law as being affirmed by Section 9 of the Statute of 1863 which was then in force and provided:

"That the person who has first adopted and used a trademark, whether within or beyond the limits of this State, shall be considered its original owner, with full rights of property, and entitled to the same protection by suits of common law as in the case of other personal property." (Id. at 298).

In the *Derringer* case, defendant was enjoined from infringing a trademark of a plaintiff which was first used

outside of the State of California. This broad interpretation has been consistently followed by both state and federal courts in applying California law. This Court had the occasion to review Section 14270 in *Stork Restaurant v. Sahati*, 166 Fed. 2d 348 (9th Cir. 1948). In this case, an owner of the New York Stork Club which operated only in New York, was entitled to an injunction foreclosing further use of its trademark by a small bar in San Francisco. In rejecting contentions that the defendant's use was without fraudulent intent, the court approvingly quoted the Restatement:

“The Actor may be enjoined for the future despite the fact that he adopted and used his designation *in ignorance of the other trademark.*” (emphasis added)

The innocence and lack of knowledge of the plaintiff's prior adoption of the mark was also held irrelevant in this State in several other cases. See, *Hall v. Halstrom*, 289 P. 668 (Cal. D.C. 1930), and cases cited; *Evelyn Woods Reading Dynamics Institute v. Zimmerman*, 134 U.S.P.Q. 475 (N. Cal. 1962). See also, NIMS, UNFAIR COMPETITION AND TRADEMARKS, Vol. 1, p. 627 (4th Ed.). The rationale for affording protection to the first comer regardless of knowledge or fraudulent intent of the defendant's subsequent use is based upon the right of the public to protection from fraud and deceit. *Stork Restaurant v. Sahati*, *supra*. And in this day of rapid transportation and substantial travel between states the soundness of such a rationale which affords a plaintiff protection of its mark regardless of knowledge of others and subsequent adoption of marks is obvious. *Cf. Quality Courts United v. Quality Courts*, 140 F. Supp. 341, 349 (M.D. Pa. 1956).

The district court did not consider this California statute

or common law and offered no opinion with respect to plaintiff's allegations in its Complaint of right to relief under California law.

The application of California law to the present case is clear and unequivocal. Under Cal. Bus. & Prof. Code § 14270, knowledge of prior adoption of the mark by another is irrelevant in determining ownership rights. Consequently, the plaintiff as first user is the owner of "MISTER DONUT" and "MR. DONUT". Nor can there be any serious doubts that the contemporaneous use of the plaintiff's and defendants' trademarks are likely to cause confusion since their businesses are identical, and since plaintiff is actively developing its business not only in the State of California, but within Los Angeles and Orange County. And under California law such likelihood of confusion is enough to establish liability. *Stork Restaurant v. Sahati, supra; Brooks Bros. v. Brooks Clothing of California*, 60 F. Supp. 442 (S.D. Cal. 1945). Thus, the appropriation by defendants of plaintiff's marks is actionable. Cal. Bus. & Prof. Code § 14203. *Cf. Evans v. Shockley*, 58 Cal. App. 427 (D.C. 1922).

Cal. Bus. & Prof. Code § 14200ff was repealed and replaced by a revised code during the 1967 regular session of the California Legislature. (Senate Bill No. 864.) This revised Act repealed old Section 14270, but 14210 of the new Act provides that "Nothing in this chapter shall adversely affect the rights or the enforcement of rights in marks acquired in good faith at any time at common law," and new Section 14212 provides, "This chapter shall not affect any suit, proceeding or appeal pending on the effective date of this chapter." Since the new Act became effective during the pendency of this appeal, it is clear from the foregoing quotations that the old Act is still applicable to these proceedings.

CALIFORNIA LAW REQUIRES THAT DEFENDANTS' USE OF A CONFUSINGLY SIMILAR TRADE NAME TO THAT OF THE PLAINTIFF BE ENJOINED IN ORDER TO PROTECT THE PUBLIC.

The defendants incorporated under the name MR. DONUT, Inc. after this suit had commenced and have otherwise expanded their use of MR. DONUT as a trade name. Since the law of unfair competition with respect to trade names is broader than the common law or statute law of trademarks, relief is even more demanding in respect to defendants' unauthorized tradename use of MR. DONUT. *Phillips v. The Governor & Co.*, 79 F. 2d 971 (9th Cir. 1935). Since Cal. Bus. & Prof. Code § 14270 provides plaintiff's first use outside of California establishes it as senior user of the marks MR. DONUT and MISTER DONUT, the issue of defendants' innocence or lack of fraudulent intent in adopting its name is irrelevant. *Cf. Visser v. Macres*, 214 Cal. App. 2d 249 (1963); *Hoover v. Groger*, 12 Cal. App. 2d 417 (1936). The issue to be determined even when considering operations in remote parts of California is simply whether the public will be deceived by continued use of a name by the latecomer. *MacSweeney Enterprises, Inc. v. Tarantino*, 235 Cal. App. 2d 549 (1965). As a consequence defendants' unauthorized tradename use of MR. DONUT should also be enjoined as requested in the complaint. (R. 10, 11, 207, 208)

THE DISTRICT COURT ERRED IN SUGGESTING THAT FAIRWAY FOODS, INC. V. FAIRWAY MARKETS, INC. MIGHT AUTHORIZE THE ENJOINING OF PLAINTIFF FROM EXPANSION OF ITS USE OF MR. DONUT IN SOUTHERN CALIFORNIA AND FURTHER ERRED IN NOT GIVING FULL WEIGHT TO THE INCONTESTABLE NATURE OF PLAINTIFF'S REGISTRATION NOS. 683,370 AND 668,784.

The defendants urged in their brief and the court apparently concurred that the defendants might by virtue of

their use of MR. DONUT in Southern California have some future right to enjoin plaintiff's use of MISTER DONUT in Southern California. In reaching this Conclusion of Law 6 (R. 583) the court cited *Fairway Foods, Inc. v. Fairway Markets, Inc.*, 227 F.2d 193 (9th Cir. 1955), and apparently either disregarded or did not fully understand the nature and rights afforded a registration which becomes incontestable under the provisions of the Lanham Act, § 15 (15 U.S.C. 1065).

In *Tillamook Country Creamery Association v. Tillamook Cheese and Dairy Association*, 345 F.2d 158 (9th Cir. 1965) this court held the incontestable features of the Lanham Act were purely defensive and not offensive. We need not consider here the apparent split developing in the various circuits with respect to whether the incontestable feature of a registration has some offensive features. Cf. *John R. Thompson Co. v. Holloway, supra*; *Nielsen v. American Oil Co.*, 203 F. Supp. 473 (D. Utah 1962). Rather we are concerned with plaintiff's defensive right under its incontestable registration to trade freely and establish shops and franchises anywhere in the United States, including if it so desires, anywhere in Orange County. The Lanham Act § 15, states simply that plaintiff's "right . . . to use . . ." its ". . . registered mark in commerce . . . shall be incontestable." under certain conditions, of which only one is relevant to this case. That condition is that plaintiff's mark must not infringe ". . . a valid right acquired under the law of any State or Territory by use of a mark or trade name continuing from a date prior to the date of publication under this Act of such registered mark . . .". Since the defendants did not use their mark until December 3, 1957 about three weeks after publication of Registration 668,784 (Ex. 3), on November 12, 1957, defendants do not come within this sole condition and therefore have no right

to assert any affirmative claims under section 15. Under these circumstances, and if the incontestable feature of the Lanham Act is to have any meaning, the defensive nature of this Act should at the very least assure the owner of an incontestable registration that it may use its mark when and as it pleases. It would be hard to imagine that Congress in stating that an incontestable “. . . registration shall be conclusive evidence of the registrant’s exclusive right to use the registered mark in commerce . . .” (15 U.S.C. 1115(b)) meant anything less.

CONCLUSION

For the foregoing reasons reversal of the district court’s judgment is solicited.

Dated: January 8, 1968.

Of Counsel:

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Respectfully submitted,

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By DAVID WOLF

LEONARD H. MUNROE

CERTIFICATE

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit and that, in my opinion, the foregoing brief is in full compliance with those rules.

DAVID WOLF, *Attorney*

APPENDIX A
Exhibits

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APPENDIX B

Patent Office Trademark Rule of Practice No. 1.12

(Oct. 1956 Ed.)

Assignment records open to public inspection. The assignment records, including digests and indexes, are open to public inspection and copies of any instrument recorded may be obtained upon payment of the fee therefor. An order for a copy of an assignment should give the identification of the record. If identified only by the name of the patentee and number of the patent, or in the case of a trademark registration by the name of the registrant and number of the registration, or by name of the applicant and serial number of the application, an extra charge will be made for the time consumed in making a search for such assignment.

